

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Luce County Housing Commission	County Luce
Audit Date 12/31/04	Opinion Date 5/11/05	Date Accountant Report Submitted to State: 6/14/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

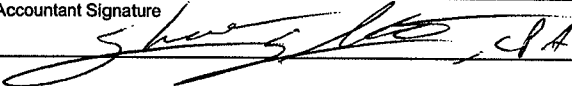
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address Po Box 828, 201 E. Hughitt	City Iron Mountain	State MI	ZIP 49801
Accountant Signature 		Date 6-14-05	

LUCE COUNTY HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended December 31, 2004

LUCE COUNTY HOUSING COMMISSION

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Luce County Housing Commission
Newberry, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Luce County Housing Commission as of and for the year ended December 31, 2004 as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Luce County Housing Commission as of December 31, 2004, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated May 11, 2005 on our consideration of the Luce County Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters.. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

As described in Note A to the financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Financial Statements-and Management's Discussion and Analysis-For State and Local Governments* and Governmental Accounting Standards Board Statement No. 37, an amendment of Statement No. 34. This results in a change in the format and content of the financial statements.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Luce County Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The Financial Data Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

May 11, 2005

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Luce County Housing Commission's financial performance provides an overview of the financial activities for the year ended December 31, 2004. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The Commission's net assets were reported for the first time under GASB 34. As such, no comparisons with prior years will be made. In future years, comparative information will be presented in various schedules throughout the MD&A. Net assets for the entire Commission were reported at \$342,492.
- During the year, the Commission's operating revenues totaled \$597,554, or 99.4% of total revenues, while operating expenses totaled \$579,783 or 94.8% of total expenses.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses and Change in Net Assets (on pages 9 to 11) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses, and Change in Net Assets, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help it cover all or most of the costs of services it provides.

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

THE COMMISSION AS A WHOLE

The Commission's combined net assets at December 31, 2004 decreased \$(10,455) from December 31, 2003.

Table 1

NET ASSETS

Assets	
Current and other assets	\$198,463
Capital assets (net)	<u>655,411</u>
Total assets	<u>853,874</u>
Liabilities	
Current liabilities	145,527
Noncurrent liabilities	<u>365,855</u>
Total liabilities	<u>511,382</u>
Net Assets	
Invested in capital assets, net of related debt	185,411
Unrestricted	<u>157,081</u>
Net Assets	<u>\$342,492</u>

Net assets of the Commission stood at \$342,492. Unrestricted net business assets were \$157,081. In general, the Commission's unrestricted net assets are used to fund operations of the Commission.

Table 2
CHANGE IN NET ASSETS

Revenues:		
Program revenues:		
Charges for services	\$117,956	
Program grants & subsidies	475,754	
General revenues:		
Unrestricted investment earnings	3,600	
Other income	<u>3,844</u>	
	Total revenues	<u>601,154</u>
Program Expenses:		
Operating expenses	579,783	
Interest expense	<u>31,826</u>	
	Total expenses	<u>611,609</u>
	Change in net assets	(10,455)
Net assets – beginning of period		
		<u>352,947</u>
Net assets – end of period		
		<u>\$342,492</u>

BUSINESS-TYPE ACTIVITIES

Revenues for the Commission totaled \$601,154. The Commission's average unit months leased on a monthly basis had decreased during the current year. In addition, HUD operating funds and capital funding grants had increased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004, the Commission had \$1,879,971 invested in a variety of capital assets including land, equipment and buildings as follows:

Table 3

CAPITAL ASSETS AT DECEMBER 31, 2004 Business – Type Activity

Land and improvements	\$ 42,965
Buildings and improvements	1,763,574
Equipment	<u>73,432</u>
Total cost	1,879,971
Less accumulated depreciation	<u>(1,224,560)</u>
NET CAPITAL ASSETS	\$ <u>655,411</u>

The Commission invested \$32,334 in capital assets during the year ended December 31, 2004.

BONDS PAYABLE

During the year the Commission repaid bonds payable in the amount of \$105,000, representing all long term liability payments due from the Commission during the year

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2004/2005. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2004/2005 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Erin Teske, at 550 West Victory, Newberry, Michigan 49868, or call 906-293-5988.

LUCE COUNTY HOUSING COMMISSION

**STATEMENT OF NET ASSETS
Proprietary Fund**

December 31, 2004

CURRENT ASSETS:

Cash and equivalents	\$ 188,084
Accounts receivable	4,193
Prepaid expenses	4,716
Inventories	<u>1,470</u>

TOTAL CURRENT ASSETS

198,463

NONCURRENT ASSETS:

Capital assets	1,879,971
Less accumulated depreciation	<u>(1,224,560)</u>

NET CAPITAL ASSETS

655,411

TOTAL ASSETS

\$ 853,874

CURRENT LIABILITIES:

Accounts payable	\$ 10,855
Accrued liabilities	24,672
Bonds payable	<u>110,000</u>

TOTAL CURRENT LIABILITIES

145,527

NONCURRENT LIABILITIES:

Compensated absences	5,855
Bonds payable	<u>360,000</u>

TOTAL NONCURRENT LIABILITIES

365,855

TOTAL LIABILITIES

511,382

NET ASSETS:

Investment in capital assets, net of related debt	185,411
Unrestricted net assets	<u>157,081</u>

NET ASSETS

\$ 342,492

The accompanying notes to financial statements are an integral part of this statement.





**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

LUCE COUNTY HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2004

FUNCTIONS/PROGRAMS	Program Revenue			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
BUSINESS-TYPE ACTIVITIES:					
Public Housing	\$ 611,609	\$ 117,956	\$ 475,754	\$ -	\$ (17,899)
General revenues:					
					3,600
					3,844
					7,444
					(10,455)
					352,947
					\$ 342,492

The accompanying notes to the financial statements are an integral part of this statement.

LUCE COUNTY HOUSING COMMISSION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE
IN NET ASSETS
Proprietary Fund**

For the Year Ended December 31, 2004

OPERATING REVENUES:

Tenant revenue	\$ 117,956
Program grants-subsidies	475,754
Other income	<u>3,844</u>

TOTAL OPERATING REVENUES	<u>597,554</u>
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OPERATING EXPENSES:

Administration	119,828
Tenant services	543
Utilities	30,601
Maintenance	30,881
General	13,283
Housing assistance payments	319,707
Other operating expenses	4,237
Depreciation	<u>60,703</u>

TOTAL OPERATING EXPENSES	<u>579,783</u>
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OPERATING INCOME	<u>17,771</u>
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OTHER INCOME (EXPENSES):

Interest income	3,600
Interest expense	<u>(31,826)</u>

TOTAL OTHER INCOME (EXPENSES)	<u>(28,226)</u>
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CHANGE IN NET ASSETS	(10,455)
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NET ASSETS, BEGINNING OF YEAR	<u>352,947</u>
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NET ASSETS, END OF YEAR	<u>\$ 342,492</u>
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**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to financial statements are an integral part of this statement.

LUCE COUNTY HOUSING COMMISSION

STATEMENT OF CASH FLOWS **Proprietary Fund**

For the Year Ended December 31, 2004

OPERATING ACTIVITIES:

Cash received from customers	\$ 117,956
Cash received from grants and subsidies	471,561
Cash payments to suppliers for goods and services	(401,839)
Cash payments for wages and related benefits	(115,974)
Cash payments for payment in lieu of taxes	(4,000)
Other receipts	<u>3,844</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES 71,548

CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	(32,334)
Payment of bond principal	(105,000)
Payment of bond interest	<u>(33,026)</u>

NET CASH (USED) BY CAPITAL AND
RELATED FINANCING ACTIVITIES (170,360)

INVESTING ACTIVITIES:

Investment income	<u>3,600</u>
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NET CASH PROVIDED FROM INVESTING ACTIVITIES 3,600

NET (DECREASE) IN CASH AND EQUIVALENTS (95,212)

CASH AND EQUIVALENTS, BEGINNING OF YEAR 283,296

CASH AND EQUIVALENTS, END OF YEAR \$ 188,084

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$ 17,771
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	60,703
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(4,193)
Decrease (Increase) in prepaid expenses	(51)
Decrease (Increase) in inventories	(360)
Increase (Decrease) in accounts payable	4,207
Increase (Decrease) in accrued liabilities	<u>(6,529)</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES \$ 71,548

The accompanying notes to financial statements are an integral part of this statement.



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Luce County Housing Commission (Commission) was formed under the criteria established for low income housing programs by the United States Department of Housing and Urban Development. The Commission operates under a Board of Commissioners appointed by the County Board.

The Commission, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, "*The Financial Reporting Entity*".

The criteria established by the governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Luce County Housing Commission, but the Commission is a component unit of Luce County, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

During the year the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

Government-Wide Financial Statements:

The Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenses and Change in Net Assets display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary Fund

Proprietary Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenses and Change in Net Assets are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Inventory – Inventory is recorded at the lower of cost or market and primarily consisted of maintenance supplies and materials.
- d. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- e. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$200 per item.

- f. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- g. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

1. Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and debt directly related to capital assets.

LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on January 1st. The operating budget includes proposed expenses and the means of financing them. Prior to December 31st, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to December 31st.



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(Continued)

NOTE B - CASH AND EQUIVALENTS

The Commission maintains segregated cash and investment accounts which are specific to the activity to which they are available.

Cash and equivalents consisted of:

Cash in checkings	\$ 22,617
Money markets	<u>165,467</u>
 TOTAL	 <u>\$188,084</u>

The Commission's cash and equivalents were fully insured at December 31, 2004.

Cash and equivalents are categorized as follows:

Category 1 – Insured or registered, with securities held by the Commission or its agent in the Commission's name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commission's name.

	<u>Category</u>			<u>Bank</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>
Checking accounts	\$ 22,617	\$ -	\$ -	\$ 21,411
Money markets	<u>165,467</u>	<u>-</u>	<u>-</u>	<u>165,467</u>
 TOTAL	 <u>\$188,084</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$186,878</u>



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(Continued)

NOTE C - CAPITAL ASSETS

A summary of capital assets as of December 31, 2004 is as follows:

	Balance <u>1-1-04</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12-31-04</u>
Land and improvements	\$ 42,965	\$ -	\$ -	\$ 42,965
Building & improvements	1,731,540	32,034	-	1,763,574
Equipment	<u>73,361</u>	<u>300</u>	<u>(229)</u>	<u>73,432</u>
	1,847,866	\$ <u>32,334</u>	\$ <u>(229)</u>	1,879,971
Accumulated depreciation	(1,164,086)	\$ <u>(60,703)</u>	\$ <u>229</u>	(1,224,560)
Net capital assets	\$ <u>683,780</u>			\$ <u>655,411</u>

Depreciation expense for the year was \$60,703.

NOTE D - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE E - USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(Continued)

NOTE F - VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total operating revenues for the year ended December 31, 2004 totaled \$597,554 of which \$475,754 or 79.6% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

NOTE G - RETIREMENT PLAN

Description of Plan and Plan Assets - The Housing Commission participates along with the County in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS); administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 1.7 percent times the final average compensation (FAC). The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.3333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and requires supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at December 31, 2003 is as follows: Housing Commission 11.28%

Annual Pension Cost - During the fiscal year ended December 31, 2003, the County's contributions totaling \$146,863 were made in accordance with contribution requirement determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(Continued)

NOTE G - RETIREMENT PLAN (continued)

percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three-Year Schedule of Funding Progress

Actuarial Valuation Date	Accrued Actuarial Value of Assets (a)	Actuarial Liability - (AAL)Entry Age (b)	Underfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
12/31/01	\$1,753,319	\$2,693,678	\$ 940,359	65%	848,883	111%
12/31/02	\$1,822,786	\$2,914,373	\$1,091,587	62.5%	889,309	123%
12/31/03	\$1,972,826	\$3,071,468	\$1,098,642	64%	907,429	121%

NOTE H - CHANGES IN LONG-TERM OBLIGATIONS

During the year ended December 31, 2004, the following changes occurred in long-term liabilities.

	Balance <u>January 1, 2004</u>	<u>Additions</u>	<u>Repayments</u>	Balance <u>December 31, 2004</u>	Amounts Due Within <u>One Year</u>
Bonds	\$575,000	\$ -	\$(105,000)	\$470,000	\$110,000
Vested sick pay	<u>5,193</u>	<u>662</u>	<u>-</u>	<u>5,855</u>	<u>-</u>
TOTALS	<u>\$580,193</u>	<u>\$ 662</u>	<u>\$(105,000)</u>	<u>\$475,855</u>	<u>\$110,000</u>

NOTE I - LONG-TERM OBLIGATIONS

Long-term obligations at December 31, 2004 is comprised of the following amounts:

1. 1978 Capital Building Bonds due in annual installments of \$10,00 to \$100,000 through May 1, 2007 with interest at 7.25%. \$300,000
2. 2002 Rehabilitation Bonds due in annual installments of \$5,000 to \$50,000 through July 1, 2010 with interest at 4.45% 170,000
3. Vested sick pay 470,000
- 5,855



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(Continued)

NOTE I – LONG-TERM OBLIGATIONS (continued)

The annual requirements to amortize long-term obligations outstanding as of December 31, 2004 are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Bond Issues</u>		<u>Vested</u> <u>Sick Pay</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2005	\$110,000	\$25,691	\$ -	\$135,691
2006	115,000	17,995	-	132,995
2007	125,000	10,077	-	135,077
2008	30,000	5,340	-	35,340
2009	40,000	4,006	-	44,006
2010-2014	<u>50,000</u>	<u>2,224</u>	<u>5,855</u>	<u>58,079</u>
TOTAL	<u>\$470,000</u>	<u>\$65,333</u>	<u>\$ 5,855</u>	<u>\$541,188</u>

Interest charged to expenses totaled \$31,826.



**SUPPLEMENTAL
INFORMATION**

LUCE COUNTY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE Proprietary Fund

December 31, 2004

<u>Line Item #</u>	<u>Account Description</u>	<u>Business Activities</u>	<u>Housing Choice Vouchers</u>	<u>TOTAL</u>
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash:				
111	Cash - unrestricted	\$ 137,508	\$ 50,576	\$ 188,084
100	Total cash	137,508	50,576	188,084
Accounts and notes receivables:				
122	Accounts receivable- HUD Other Projects	-	4,193	4,193
126.2	Allowance for doubtful accounts - other	-	-	-
120	Total receivables, net of allowances for doubtful accounts	-	4,193	4,193
Other current assets:				
142	Prepaid expenses	3,947	769	4,716
143	Inventories	1,470	-	1,470
144	Interprogram due from	1,820	-	1,820
150	TOTAL CURRENT ASSETS	144,745	55,538	200,283
NONCURRENT ASSETS:				
Fixed assets:				
162	Buildings	1,763,574	-	1,763,574
163	Furniture, equipment & machinery - dwellings	23,737	-	23,737
164	Furniture, equipment & machinery - administration	44,289	5,406	49,695
165	Leasehold improvements	42,965	-	42,965
166	Accumulated depreciation	(1,219,154)	(5,406)	(1,224,560)
160	Total fixed assets, net of accumulated depreciation	655,411	-	655,411
180	TOTAL NONCURRENT ASSETS	655,411	-	655,411
190	TOTAL ASSETS	\$ 800,156	\$ 55,538	\$ 855,694

See accompanying notes to financial statements



LUCE COUNTY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

December 31, 2004

<u>Line Item #</u>	<u>Account Description</u>	<u>Business Activities</u>	<u>Housing Choice Vouchers</u>	<u>TOTAL</u>
<u>LIABILITIES AND EQUITY</u>				
LIABILITIES:				
CURRENT LIABILITIES				
312	Accounts payable ≤ 90 days	\$ 8,163	\$ 2,692	\$ 10,855
321	Accrued wages / payroll taxes payable	4,097	3,074	7,171
322	Accrued compensated absences - current portion	2,049	697	2,746
325	Accrued interest payable	3,625	-	3,625
341	Tenant security deposits	9,048	-	9,048
342	Deferred revenues	2,082	-	2,082
343	Current portion of long-term debt	110,000	-	110,000
347	Interprogram due from	-	1,820	1,820
310	TOTAL CURRENT LIABILITIES	139,064	8,283	147,347
351	Long-term debt, net of current maturities	360,000	-	360,000
354	Accrued compensated absences - non current	2,715	3,140	5,855
350	TOTAL NONCURRENT LIABILITIES	362,715	3,140	365,855
300	TOTAL LIABILITIES	501,779	11,423	513,202
<u>EQUITY</u>				
508.1	Investment in capital assets, net of related debt	185,411	-	185,411
512.1	Unrestricted net assets	112,966	44,115	157,081
513	TOTAL EQUITY	298,377	44,115	342,492
600	TOTAL LIABILITIES AND EQUITY	\$ 800,156	\$ 55,538	\$ 855,694

See accompanying notes to financial statements

LUCE COUNTY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

For the Year Ended December 31, 2004

<u>Line Item #</u>	<u>Account Description</u>	<u>Business Activities</u>	<u>Housing Choice Vouchers</u>	<u>TOTAL</u>
<u>REVENUES</u>				
703	Net tenant rental revenue	\$ 117,145	\$ -	\$ 117,145
704	Tenant revenue - other	811	-	811
705	Total tenant revenue	117,956	-	117,956
706	HUD PHA grants	104,070	371,684	475,754
711	Investment income - unrestricted	2,680	920	3,600
714	Fraud recovery	-	192	192
715	Other revenue	3,652	-	3,652
700	TOTAL REVENUE	228,358	372,796	601,154
<u>EXPENSES</u>				
Administrative:				
911	Administrative salaries	39,148	30,062	69,210
912	Auditing fees	1,080	1,920	3,000
914	Compensated absences	757	96	853
915	Employee benefit contributions- administrative	20,732	5,517	26,249
916	Other operating- administrative	7,998	12,518	20,516
	Total Administrative	69,715	50,113	119,828
Tenant services:				
924	Tenant services - other	543	-	543
Utilities:				
931	Water	6,103	-	6,103
932	Electricity	12,080	-	12,080
933	Gas	12,418	-	12,418
	Total Utilities	30,601	-	30,601
Maintenance:				
941	Ordinary maintenance and operations - labor	12,934	-	12,934
942	Ordinary maintenance and operations - materials & other	5,202	-	5,202
943	Ordinary maintenance and operations - contract costs	10,249	-	10,249
945	Employee benefit contributions- ordinary maintenance	2,496	-	2,496
	Total Maintenance	30,881	-	30,881

See accompanying notes to financial statements



LUCE COUNTY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

For the Year Ended December 31, 2004

<u>Line Item #</u>	<u>Account Description</u>	<u>Business Activities</u>	<u>Housing Choice Vouchers</u>	<u>TOTAL</u>
General expenses:				
961	Insurance premiums	8,077	1,206	9,283
963	Payments in lieu of taxes	4,000	-	4,000
967	Interest expense	31,826	-	31,826
	Total General Expenses	<u>43,903</u>	<u>1,206</u>	<u>45,109</u>
969	TOTAL OPERATING EXPENSES	<u>175,643</u>	<u>51,319</u>	<u>226,962</u>
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	<u>52,715</u>	<u>321,477</u>	<u>374,192</u>
971	Extraordinary maintenance	2,765	-	2,765
972	Casualty losses - non-capitalized	1,472	-	1,472
973	Housing assistance payments	-	319,707	319,707
974	Depreciation expense	<u>60,384</u>	<u>319</u>	<u>60,703</u>
900	TOTAL EXPENSES	<u>240,264</u>	<u>371,345</u>	<u>611,609</u>
Other financing sources (uses)				
1010	Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	<u>\$ (11,906)</u>	<u>\$ 1,451</u>	<u>\$ (10,455)</u>
MEMO account information				
1102	Debt principal payments	\$ 105,000	\$ -	\$ 105,000
1103	Beginning equity	\$ 310,283	\$ 42,664	\$ 352,947
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ -	\$ 361,341	\$ 361,341
1115	Contingency Reserve, ACC Program Reserve	\$ -	\$ 38,847	\$ 38,847
1116	Total Annual Contributions Available	\$ -	\$ 400,188	\$ 400,188
1120	Unit months available	480	1,320	1,800
1121	Number of unit months leased	473	1,320	1,793

See accompanying notes to financial statements

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
"GOVERNMENT AUDITING STANDARDS"**

Board of Commissioners
Luce County Housing Commission
Newberry, Michigan

We have audited the financial statements of the business-type activities of the Luce County Housing Commission, as of and for the year ended December 31, 2004, which collectively comprise the Luce County Housing Commission's basic financial statements and have issued our report thereon dated May 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Luce County Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Luce County Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under "Government Auditing Standards". However, we noted certain immaterial instances of noncompliance that we have reported to management of the Luce County Housing Commission in a separate letter dated May 11, 2005.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

Anderson Tackman & Co. P.C.

ANDERSON, TACKMAN & COMPANY, P.L.C.
Certified Public Accountants
Iron Mountain, Michigan

May 11, 2005

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS





ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

May 11, 2005

Board of Commissioners
Luce County Housing Commission
Newberry, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Luce County Housing Commission for the year ended December 31, 2004, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated May 11, 2005, on the financial statements of the Luce County Housing Commission.

1. During the review of cash and investments, it was noted that the Commission did not have depository agreements in place with all the banks it does business with.

Recommendation

The Commission should have policies and procedures in place so as to require each bank it does business with to sign a depository agreement with the Commission. The ACC contract with HUD states that the Commission is required to have depository agreements signed by all financial institutions it does business with. The depository agreement states that the financial institution will insure any of the Commission's funds that exceed \$100,000.

2. During the review of Section 8 Voucher tenant files it was noted that two files did not contain the required information regarding HQS inspections.


Recommendation

The Commission should have policies and procedures in place that requires it to effectively monitor its Section 8 homes that fail inspection. HQS inspections are to be completed annually when the tenant is re-certified or upon entrance into the program. HQS inspections that fail are to be re-examined within 30 days to make sure the failed components have been corrected. Those failures deemed to be life threatening are to be mitigated within 24 hours, all others are to be completed within 30 days. The Commission should make sure that it has adequate documentation in its files that failed inspections were re-inspected within the 30 day requirement.

We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC



Shane M. Ellison, CPA
Principal